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DEPARTMENT OF STATE

EXECUTIVE SECRETARIAT

Senior Interdepartmental Group

June 8, 1966

Record of Agreements and Decisions

Meeting of June 7, 1966

Present:

The Under Secretary of State
(Chairman)

The Deputy Secretary of Defense

The Chairman, Joint Chiefs of Staff

The Director, CIA

The Director, USIA

The Deputy Administrator, AID (for Mr. Bell)

The Deputy Under Secretary of State for Political
Affairs

The Special Assistant to the President,
Mr. Walt W. Rostow

The Staff Director

Treasury - Mr. Barr

EUR - Mr. Stoessel

B) NATO Military Payments Union

Agreed that no further decision will be made on this subject until, at its meeting of June 21, the SIG has further considered the feasibility of the NMPU in the light of a technical study now being prepared.

This study should be completed by and circulated to the SIG June 16.


Harry H. Schwartz
Staff Director, SIG

State, Treasury declassification & release instructions on file

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DOC. CONTROL
SIO/RA #9.1

8 June 1966

MEMORANDUM

SUBJECT: Meeting of the Interagency Southern Rhodesia-Zambia Problem and Plans Group on 7 June (33rd)

1. In his rundown of the current situation the chairman, Mr. McKhiney, AF/E (State), stressed the Zambian aspects of the problem. He reported that British officials believe they can find common ground with the Zambians on many of the long and short term Zambian economic requirements which are a prerequisite for Lusaka's sanctions against Salisbury. The British, however, want to consult with US officials before returning to Lusaka with their proposals. State Department officials believe that there should be a prior coordinated position among potential donors such as US, UK, Canada, West Germany and some Scandinavian states. In addition, there should also be a coordinated position among the African-ruled states of eastern and southern Africa as well as Portugal detailing and assuring each state of equitable distribution of rail and port capacity.

2. The State Department representatives reported that the Rhodesian railway picture was confused. Definite information is lacking as to what Zambian traffic is being carried and what payment arrangements are in force. There is a pileup of Zambian imports at Beira. Mr. McKhiney reported that Zambia's approach to the railroad crisis appears increasingly realistic and that some way would probably be found to get around the payments problem.

3. State Department has no new information on the progress of the British-Rhodesian talks in Salisbury.

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Chief, Africa Division
Office of Current Intelligence

6 June 1966

MEMORANDUM

SUBJECT: Comments on the NMPU Papers

1. The decision to await Ambassador McGhee's remarks before pressing forward on the NMPU scheme is doubtless a wise one. The offset agreement and its relationship to the continuance of US troops on German soil is the major sore point in Bonn's partnership with Washington. Top German officials have reiterated that Bonn will do its best to meet the offset commitment, but that under present circumstances this may be very difficult. Having finished a round of talks on the offset in both Washington and London, the Erhard government probably would prefer to put this problem to rest for the next several months. It is therefore problematical that the Germans would have much desire to discuss a new payments system, particularly during the heat of the NATO upheaval.

2. We retain some general uneasiness about the introduction of this proposal at this time. From a conceptual point-of-view, the NMPU implies the establishment of another "Atlantic" institution--and this at a time when the NATO crisis has raised the whole question of the US-European relationship. Although it is probably too early to judge, the trend of events in the NATO crisis thus far has provided no guarantee that the European members of the Alliance will in fact opt for stronger and more intimate Atlantic ties than now exist, and on the whole, we do not believe that the US bargaining position has been demonstrated as yet to be a strong one. The situation over the next five to six months will in particular be a delicate one. In addition to acute German sensitivity to any implication that their increased reliance on the US and UK is being "exploited," some of the other Alliance members could conceivably feel that another attempt to set up an arrangement which the French will clearly spurn is unwise at this time. In short, we believe the risk should be examined that a proposal which might have certain attractions in more normal times might be defeated by political problems.

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With specific reference to the British, it probably is cheaper in total money, as opposed to foreign exchange money, to keep the BAOR in Germany than to return it to England, build new quarters, find training fields, etc. Moreover, it might be especially difficult to relocate BAOR in England at the same time as troops now in Malaysia might be coming home. Unless London decides it can reduce the overall size of its Army, Germany is a very convenient place to keep some of it.

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IRG/EUR/Document-6

June 2, 1966

TO : Chairman, SIG

FROM : Walter J. Stoessel, Jr.
Alternate Chairman, IRG/EUR

SUBJECT: IRG/EUR Proposal on Negotiating Schedule for
NATO Military Payments Union (NMPU)

1. Terms of Reference

The following proposal was agreed in a meeting of the IRG/EUR held on June 1. It is made in pursuance of a request from the Senior Interdepartmental Group, decided at its meeting on May 17, 1966, that the IRG/EUR assess the results of the Wilson-Erhard meeting in London (May 23), prepare a negotiating schedule and submit a recommendation to the SIG.

2. Assessment of the Wilson-Erhard Meeting in London,
May 23, 1966

Wilson emphasized British concern about securing German agreement to offset fully the exchange costs of the British Army on the Rhine. Erhard was sympathetic to the British balance of payments problem but undertook no new commitments. It was agreed to establish a high-level UK-German Committee to study the offset problem and to make recommendations by September.

The Wilson-Erhard meeting confirmed that the UK-German offset agreement is a major sore point in Anglo-German relations. There is reason to believe that the UK means what it says about BAOR reductions if the FRG does not provide more balance of payments relief. The results of the meeting underscore the need to find means of eliminating such sources of friction in the Alliance, and therefore to move on the NMPU in timely fashion.

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3. Negotiating Tactics and Schedule for the NMPU

a. Presentation to the German Government

The NMPU proposal should first be presented to the German Government. Without German participation a payments union would make no sense. The US presentation to the FRG should be made at a high political level to maximize chances for success.

The proposal should be presented at the earliest practicable opportunity because of the relief the NMPU could afford to the US and UK payments positions and in order to settle in an orderly manner the financing of NATO relocation and reorganization. It should be made perfectly clear that the proposal is not designed to reduce German obligations under current or future offset agreements.

As suggested by the Senior Interdepartmental Group, Secretary McNamara's projected visit to Bonn about July 27 offers a good opportunity for consultations with the FRG on the NMPU.

An alternative would be an earlier approach by a Special High Level Mission, perhaps supported by a Presidential letter.

A variant would be preparatory approaches by Ambassador McGhee to the Chancellor, Westrick and Schroeder before the McNamara talks.

b. US Presentation to the UK

Immediately after initiating discussions of the NMPU with the FRG, we should inform the British Government of our action, seeking their support and suggestions on tactics.

c. Presentation of the NMPU Proposal to Certain Other NATO Governments

In the light of British and German reactions, we should present the proposal to certain other NATO governments, including Belgium, Canada, Italy, Luxembourg and the Netherlands. We would propose a September sub-Ministerial meeting of the NAC to reach agreement on:

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1. the objective of neutralizing balance of payments effects of NATO military expenditures among key allies, including the Benelux states, and
 2. establishment of a negotiating group within NATO to achieve the agreed objective.
- d. We would expect to complete negotiation of an agreement in time for legislative consideration early in 1967.

4. Papers to be Prepared

a. The State, DOD, White House and Treasury representatives agreed to staff a working group chaired by EUR to prepare an analysis of relevant technical aspects of the NMPU proposal. This paper will be prepared, bearing in mind the need for prompt movement, by mid-June if possible.

b. A paper for presentation to the NATO governments, outlining the NMPU concept, its purposes, its relation to existing agreements, and how it might work, will be prepared for the same deadline.

Recommendations:

1. That the negotiating schedule set forth in Section 3 above be adopted for planning purposes.

2. That, before any proposal is made to any allies, there should be full interdepartmental agreement that the proposal satisfies the criterion in the SIG Minute of May 17, 1966, that from the specific proposal "there will be no net additional cost to the U.S." This will involve some judgment as to the degree of risk of additional net U.S. exchange costs."

* The Treasury representative made the proposal, which was not agreed, that this paragraph be amplified by adding: "Specifically, the U.S. should rule out any proposal which results in net additional exchange costs from U.S. defense expenditures in Germany, in order to relieve U.K. defense foreign exchange expenditures."

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3. That the SIG authorize a telegram suggesting that Ambassador McGhee might return in mid-June for consultations.

4. That during Ambassador McGhee's consultations decisions be made about:

a. The relative desirability of either a special high-level political approach to the FRG or reliance on the July McNamara visit.

b. How Ambassador McGhee should prepare the ground with the FRG, either for the McNamara visit or for a special high-level political approach.

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2 June 1966

MEMORANDUM FOR THE RECORD

SUBJECT: IRG/EUR Meeting 1 June 1966

1. The main topic of the meeting, per agenda (attached), was the negotiating schedule for the proposed NATO Military Payments Union (NMPU). The conclusion, after somewhat diffuse discussion, was that the tactics on negotiating could best be determined after consultation with Ambassador McGhee and that no further steps could be predicted until this had been done; a recommendation that he be called back for consultation in mid-June will accordingly be presented to the next SIG meeting.

2. Other points of interest:

a. The Wall Street Journal almost certainly has a fairly full story on the proposed NMPU so that the matter may well be out in the open in the immediate future (or is already). IRG participants were agreed that queries should be handled in "generalities", noting that the U.S. Government is constantly studying a variety of proposals for dealing with the balance of payments problem.

b. A subcommittee comprising representatives of State, Defense, Treasury and White House was established to construct within the next three weeks an agreed paper covering all facts which can be put together within that time pertinent to the proposed NMPU, including an analysis of the balance of payments positions of the various NATO countries, and recommending in specific terms what form the NMPU should take including which NATO nations should be included (as basis for deciding which nations should even be approached).

c. The same subcommittee is likewise to draft a paper intended for presentation to the Germans in opening negotiations.

d. Defense sought throughout the meeting to establish what minimum number of nations would be considered acceptable in the NMPU, noting that in all probability the Benelux nations would have nothing to gain from such a

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system and that NMPU was likely to boil down to an agreement amongst the UK, the U.S. and the Federal Republic of Germany. (Defense predicts that Belgium will ask for a commitment that it will not have to accept an offset arrangement if SHAPE moves to Brussels, as it has already asked for a commitment that EUCOM will not be included in the move to Brussels.) This discussion led to the conclusion that insufficient planning had been done, particularly respecting which nations were likely to agree to join NMPU, which in turn led to the establishment of the subcommittee referred to in subparagraph B above.

e. Treasury submitted a draft insert to the attached agenda, copy of which is likewise attached, which after discussion was reduced by eliminating all but the first sentence. (Everyone agreed that the NMPU was assumed a priori to be a means of improving the U.S. balance of payments outlook and that the Treasury statement was not really necessary but acceptable.)

3. The projected visit to Bonn by Secretary McNamara cited at the top of page 2 of the attached agenda is actually not planned until the very last days of July. Most of the representatives (that is, all but Defense) felt that this would delay presentation of this proposal to the Federal Republic far too long since it is almost certain that the responsible officials of the Federal Republic government will not be available in the month of August. For what it is worth it is my opinion (although I assume the Ambassador will make this point on his own) that Ambassador McGhee should be charged with making the initial approach if it is decided to go ahead with discussions of NMPU with the Germans (possibly on the basis of a letter from the President to Chancellor Erhard), since it would seem to me that the Ambassador would otherwise be placed in a rather dubious position vis a vis the Chancellor and other senior members of the government. The most sensible course of action is certainly, however, to bring Ambassador McGhee back and get his views at first hand.

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Acting Chief
European Divisioncc: OCI/CA/Eur **SECRET**

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IRG/EUR/DOCUMENT-5

May 26, 1966

SUBJECT: Negotiating Schedule for NATO Military Payments Union (NMPU)

1. SIG Decision on the NMPU Proposal

The record of agreements and decisions by the Senior Interdepartmental Group at its meeting of May 17, 1966 includes the following requirement for IRG/EUR:

IRG/EUR will assess the results of the Wilson-Erhard meeting in London (May 23), will prepare a negotiating schedule and will submit a recommendation to the SIG.

2. Assessment of the Wilson-Erhard Meeting in London May 23, 1966

Wilson emphasized British concern about securing German agreement to offset fully the exchange costs of the British Army on the Rhine. Erhard was sympathetic to the British balance of payments problem but undertook no new commitments. It was agreed to establish a high-level U.K.-German Committee to study the offset problem and to make recommendations by September.

The Wilson-Erhard meeting confirmed that the U.K.-German offset agreement is a major sore point in Anglo-German relations. There is reason to believe that the U.K. means what it says about BAOR reductions if the FRG does not provide more balance of payments relief. The meeting underscores first the desirability of moderating this source of friction in the Alliance, and secondly, the need to move on the NMPU in timely fashion.

3. Negotiating Tactics and Schedule for the NMPU

a. Presentation to the German Government

The NMPU proposal should first be presented to the German Government. Without German participation a payments union would make no sense. The U.S. presentation to the FRG should be made at a high political level to maximize chances for success.

The proposal should be presented at the earliest practicable opportunity because of the relief the NMPU could afford to the U.S. and U.K. payments positions and in order to settle in an orderly manner the financing of NATO relocation and reorganization. It should be made perfectly clear that the proposal is not designed to reduce German obligations under current or future offset agreements.

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As suggested by the Senior Interdepartmental Group, Secretary McNamara's projected visit to Bonn in July might offer the best opportunity for consultations with the FRG on the NMPU.

An alternative would be an earlier approach by a Special High Level Mission, perhaps supported by a Presidential letter.

A variant would be preparatory approaches by Ambassador McGhee to the Chancellor, Westrick and Schroeder before the McNamara-von Hassel talks.

b. U.S. Presentation to the U.K.

Immediately after initiating discussions of the NMPU with the FRG, we should inform the British Government of our action, seeking their support and suggestions on tactics.

c. Presentation of the NMPU Proposal to Certain Other NATO Governments

In the light of British and German reactions, we should present the proposal to certain other NATO governments, including Belgium, Canada, Italy, Luxembourg and the Netherlands. We would propose a September sub-Ministerial meeting of the NAC to reach agreement on:

1. the objective of neutralizing balance of payments effects of NATO military expenditures among key allies, including the Benelux states, and
2. establishment of a negotiating group within NATO to achieve the agreed objective.

d. We would expect to complete negotiation of an agreement in time for legislative consideration early in 1967.

Recommendations:

1. That the negotiating schedule set forth above be adopted for planning purposes.

2. That a paper outlining the NMPU concept, its purposes, its relation to existing agreements, and how it might work be prepared for presentation to the NATO governments. Since this paper's purpose would be to persuade as well as to explain, it should, in particular, develop the potential advantages of the NMPU from the overall Alliance point of view. Potential advantages to the FRG should also be highlighted.

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3. That the SIG authorize a telegram suggesting that Ambassador McGhee might return in mid-June for consultations.

4. That during Ambassador McGhee's consultations decisions be made about:

a. The relative desirability of either a special high-level political approach to the FRG or reliance on the July McNamara visit.

b. How Ambassador McGhee should prepare the ground with the FRG, either for the McNamara visit or for a special high-level political approach.

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